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STATE OF ILLINOIS

CHIEF CLERK'S OFFICE
ILLINOIS COMMERCE COMMISSION

ILLINOIS-AMERICAN WATER COMPANY)

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Docket No. 00-0306

Petition for authority to enter into affiliated
interest agreement with American Water
Works Financing Corporation)

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VERIFIED PETITION

Illinois-American Water Company ("Illinois-American" or the "Company"), pursuant to Section 7-101 of the Illinois Public Utilities Act (the "Act") (220 ILCS 7-101), hereby requests approval to enter into an affiliated interest agreement with American Water Works Financing Corporation ("AWWFC"), a wholly-owned subsidiary of the Company's parent, American Water Works Company, Inc. ("AWW"). In support of this request, Illinois-American states as follows:

INTRODUCTION

1. Illinois-American is a corporation organized under the laws of the State of Illinois with its principal office in the City of Belleville, Illinois, and is engaged in the business of supplying public water service within Alexander, Bond, Jersey, Madison, Peoria, St. Clair and Tazewell Counties, Illinois. On March 31, 2000, pursuant to the Order of the Commission in Docket 99-0418, the Company merged with Northern Illinois Water Corporation, which provides public water service in and about or to the municipalities of Champaign, Urbana, Savoy, Tolono, Bondville, Philo, Arcola, Tuscola, Sidney, Seymour, St. Joseph, Streator, Kankakee, portions of Eagle Township, Sterling and Pontiac in the State of Illinois. The combined company serves

approximately 208,000 customers and is a public utility within the meaning of Section 3-105 of the Act. (220 ILCS § 5/3-105).¹

2. AWW is a corporation duly organized under the laws of the State of Delaware, with its principal office in Voorhees, New Jersey. AWW is the parent of operating water company subsidiaries (including Illinois-American), which serve more than 10 million people in 23 states.

3. AWWFC is a Delaware corporation and a wholly-owned subsidiary of AWW. AWWFC was formed to provide the financial services more fully described below for AWW and AWW's subsidiaries, including Illinois-American, in accordance with the terms of a Financial Services Agreement (the "Agreement"), a copy of which will be submitted with the Company's direct evidence in this proceeding.

4. By virtue of the common ownership of all of the common stock of Illinois-American and AWWFC, Illinois-American and AWWFC are "affiliated interests" within the meaning of Section 7-101 of the Act. Accordingly, Commission approval pursuant to Section 7-101 is required for Illinois-American to enter into the Agreement.

FINANCIAL SERVICES TO BE PROVIDED UNDER AGREEMENT

5. Under the Agreement, AWWFC will provide two types of financial services. First, AWWFC will provide Illinois-American with access to short-term and long-term debt.

¹The Company has entered into agreements under which it will acquire all of the common stock of United Water Illinois, Inc. ("UWI"), which provides water utility service to approximately 5,900 customers in portions of Lincoln County, Illinois; and all of the water and wastewater utility assets of Citizens Utilities Company of Illinois, Inc. ("CUCI"), which provides water utility service to approximately 35,000 customers and wastewater collection and/or treatment service to approximately 32,000 customers in portions of Cook, DuPage, Will, Kane, Kendall and Grundy Counties in Illinois. If these acquisitions are consummated, the areas formerly served by UWI and CUCI will be served by Illinois-American.

Second, AWWFC will provide Illinois-American cash management through cash sweeps and investment of excess cash.

ACCESS TO SHORT AND LONG-TERM DEBT

6. Illinois-American presently issues short-term and long-term debt securities on its own behalf. In general, Illinois-American obtains short-term debt (*i.e.*, debt with a maturity of one-year or less) from banks and issues long-term debt through private placements with institutional lenders, such as insurance companies. Standing alone, the amounts of Illinois-American's debt issuances are not large enough to provide the Company with access to the public market for debt, in which competition among lenders is substantially greater than in the market for private placements. Pursuant to the Agreement, AWWFC will permit Illinois-American to "pool" its borrowing requirements with AWW and other subsidiaries of AWW (collectively, the "Participants"), each of which will enter into a separate agreement with AWWFC, with terms substantially similar to the Agreement. As a result, the Agreement will enable Illinois-American to: (i) reduce the amount of administrative cost incurred by the Company (per dollar of debt issued) in connection with debt issuances through the spreading of administrative costs over a larger issuance amount; and (ii) reduce debt costs as a result of the increased number of bids received for larger debt issuances in the public market. Such reduced debt costs will be reflected in the cost of capital used to establish rates.

7. Under their respective agreements with AWWFC, each Participant (including Illinois-American) will, each year, provide AWWFC with an estimate of its borrowing requirements for the coming year and, on a rolling basis, for one to three years in advance. On the basis of this information, AWWFC will arrange to obtain funds necessary to meet the Participants' short- and long-term debt requirements.

8. AWWFC will arrange for short-term borrowings (*i.e.* borrowings with maturities of one year or less) through bank lines of credit and, where appropriate, through short-term obligations issued in the public market. To meet the Participants' requirements for long-term debt, AWWFC will register its own debt securities for sale in the public market by filing a "shelf registration" with the U.S. Securities and Exchange Commission. A "shelf registration" involves the registration of a maximum amount of debt to be issued and puts that amount "on the shelf" from which it can be drawn down and sold from time to time in increments. Use of shelf registrations will enable AWWFC to respond quickly to changes in the public market and to sell securities when rates and terms are most favorable.

9. AWWFC will loan the proceeds of its borrowings and debt issuances to Participants, including Illinois-American, on the same terms (including maturity and interest rates) as those obtained by AWWFC. The indebtedness of Illinois-American to AWWFC will be evidenced by a note in one of the two forms attached as exhibits to the Agreement. The form of short-term note in the amount of the maximum anticipated short-term borrowings over the course of a year will evidence the Company's obligation in respect of short-term indebtedness. The form of medium/long-term note attached to the Agreement will evidence medium and long-term borrowings, which have a specific maturity, amount and payment schedule.

10. Each Participant's debt to AWWFC will be unsecured.

11. AWW will issue a "support letter" for the benefit of the purchasers of AWWFC's debt. A "support letter" requires the parent company of a group to continue to own all of the issued and outstanding stock of its financing subsidiary, to cause its financing subsidiary to maintain a positive tangible net worth and, if its financing subsidiary is unable to satisfy its obligations when due, to provide funds to assure such payment. AWW's undertaking under its

support letter will constitute a separate, registerable security under the Federal Securities laws. As co-registrants, AWW and AWWFC will be subject to the statutory liabilities imposed by the Securities Act of 1933, and AWWFC will become a reporting company under the Securities Exchange Act of 1934. Through this arrangement, each operating utility Participant, including Illinois-American, will derive the benefits of a public sale of its securities without having to undertake these responsibilities imposed by the Federal Securities laws on issuers of debt in the public markets.

12. As discussed above, by "pooling" the borrowing requirements of the Participants, AWWFC will be able to arrange for the issuance of short and long-term debt on more favorable terms and at a lower cost than the terms and costs which would normally be applicable to debt issued by Illinois-American directly on its own behalf. Nothing in the Agreement, however, prevents Illinois-American from borrowing from others or obtaining cash management services from others on whatever terms it deems appropriate.

13. In this Petition, Illinois-American is requesting approval only to enter into the Agreement and to obtain future funding through AWWFC in accordance with the terms of the Agreement pursuant to Section 7-101 (which requires approval of affiliated interest transactions). Illinois-American is not, however, requesting approval for any specific debt issuance for which approval is required under Section 6-102 of the Act (220 ILCS 5/6-102). Approval of the Agreement will permit the Company to issue to AWWFC short-term debt (*i.e.*, debt with a maturity of 12 months or less), for which approval is not otherwise required under Section 6-102. To the extent that the filing of an information statement or a request for Commission approval with respect to the issuance to AWWFC of debt with a maturity of more than 12 months is

required under Section 6-102, such filing will be made, and any necessary Commission approval obtained, prior to issuing such debt.

CASH MANAGEMENT SERVICES

14. AWWFC will provide cash management services which will enable Illinois-American and other Participants to manage their cash balances more efficiently. Under this program, operating cash surpluses of each Participant (including Illinois-American) will be "swept" on a daily basis. Such cash surplus shall be treated as a "loan" to AWWFC, and AWWFC will pay the Participant interest on that loan at the same rate that AWWFC is required to pay for its own short-term borrowings under AWWFC's bank lines. This interest will exceed the interest on excess cash balances that Illinois-American would otherwise be able to receive on bank deposits and other available short-term investment options.

15. The cash that AWWFC obtains through the daily cash sweeps will be used to offset the amount that AWWFC would otherwise be required to obtain under bank lines of credit and/or through the public market on a short-term basis. The excess cash will be used by AWWFC to make loans to those Participants with short-term cash requirements, for which they will also pay AWWFC interest at the same rate as AWWFC pays for its own short-term borrowings. By using system-wide internally generated cash obtained through the daily cash "sweeps", AWWFC will be able to reduce the overall principal amount of short-term borrowings from external sources, thereby reducing borrowing costs, such as commitment fees. This reduction in costs will benefit all Participants, including Illinois-American.

CHARGES FOR SERVICES

16. The costs incurred by AWWFC in connection with its bank credit lines and short-term public borrowings will be divided among the Participants in proportion to the

maximum principal amount that each Participant requests be made available to it during the course of a given year. The costs incurred by AWWFC in connection with each long-term debt issuance by AWWFC will be passed through to each Participant in proportion to the principal amount of that issuance which is loaned to the Participant.

17. AWWFC also will charge each Participant a portion of AWWFC's overhead. These overhead costs will be allocated among the Participants on an equitable basis in accordance with generally accepted accounting principles. The overhead costs will consist primarily of the same kinds of charges as Illinois-American currently pays to American Water Works Service Company for accounting, financial and related services, pursuant to the affiliated interest agreement approved by the Commission in Docket 88-0303. The overhead charges will be more than offset by the reduction in the costs incurred by Illinois-American to obtain its own financings.

18. No profit element will be included in any of the charges to Illinois-American under the Agreement.

OTHER TERMS

19. The Agreement provides that the obligations of the Participants in the AWWFC program are several and not joint. Accordingly, Illinois-American's obligations will be limited to the amount that it actually borrows.

20. Illinois-American has the right to inspect AWWFC's books and records.

21. Illinois-American may terminate the Agreement by giving ten days prior written notice. AWWFC can terminate the Agreement by giving 90 days prior written notice. No termination will affect any amounts then outstanding or due under an outstanding note.

TIMING OF APPROVAL

22. AWWFC proposes to commence operations on behalf of Illinois-American and other Participants early in the third quarter of 2000. For this reason, Illinois-American requests that the Commission approve the Agreement as expeditiously as possible, and in no event later than June 30, 2000.

CONCLUSION

23. For all the reasons discussed, the terms and provision of the Agreement are fair and reasonable and the execution and performance of the Agreement are in the interests of Illinois-American and its customers and are in the public interest.

WHEREFORE, Illinois-American respectfully requests that the Commission enter an Order consenting to and approving the execution and performance of the Agreement.

Respectfully submitted,

ILLINOIS-AMERICAN WATER COMPANY

By: 

Fred L. Ruckman
Vice President and Treasurer

Dated: April 20, 2000

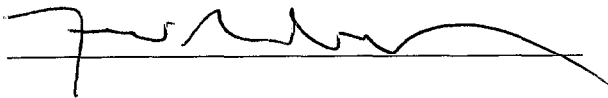
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VERIFICATION

I, Fred L. Ruckman, certify that: (i) I am Vice President and Treasurer of Illinois-American Water Company; (ii) I have read the attached Petition; (iii) I am familiar with the facts stated therein; and (iv) the facts are true and correct to the best of my knowledge.



SUBSCRIBED AND SWORN to
before me this 20th day
of April, 2000.


Notary Public

